

**SHAW CENTER FOR THE ARTS, L.L.C.**  
Baton Rouge, Louisiana  
**FINANCIAL REPORT**

June 30, 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1/21/09

**SHAW CENTER FOR THE ARTS, L.L.C.**  
Baton Rouge, Louisiana

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Shaw Center for the Arts, L.L.C.  
Baton Rouge, Louisiana

We have audited the accompanying statement of financial position of the **SHAW CENTER FOR THE ARTS, L.L.C.**, (a non-profit organization) (Shaw Center), as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Shaw Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Shaw Center's 2007 financial statements and, in our report dated December 5, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **SHAW CENTER FOR THE ARTS, L.L.C.** as of June 30, 2008, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 20, 2008, on our consideration of the **SHAW CENTER FOR THE ARTS, LLC's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Faulk & Winkler, LLC*  
Certified Public Accountants

Baton Rouge, Louisiana  
October 20, 2008

**SHAW CENTER FOR THE ARTS, L.L.C.**

Baton Rouge, Louisiana

**STATEMENT OF FINANCIAL POSITION**

June 30, 2008

(with comparative amounts for 2007)

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 17,464	\$ 72,390
Cash - restricted for construction	59,531	178,240
Receivables:		
Rental	21,817	32,898
Pledges	961	3,500
Other	29,959	6,848
Prepaid insurance	<u>15,791</u>	<u>4,270</u>
 Total current assets	 145,523	 298,146
 <b>FIXED ASSETS, net</b>	 <u>38,674,936</u>	 <u>39,721,806</u>
 Total assets	 <u>\$ 38,820,459</u>	 <u>\$ 40,019,952</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Contracts and accounts payable	\$ 66,272	\$ 74,148
Accrued expenses and other current liabilities	3,484	1,757
Due to related party	-	23,052
Deferred revenue	<u>45,787</u>	<u>27,725</u>
 Total liabilities	 <u>115,543</u>	 <u>126,682</u>
 <b>NET ASSETS</b>		
Unrestricted	38,645,385	39,715,030
Temporarily restricted	<u>59,531</u>	<u>178,240</u>
 Total net assets	 <u>38,704,916</u>	 <u>39,893,270</u>
 Total liabilities and net assets	 <u>\$ 38,820,459</u>	 <u>\$ 40,019,952</u>

The accompanying notes to financial statements  
are an integral part of this statement.

**SHAW CENTER FOR THE ARTS, L.L.C.**

Baton Rouge, Louisiana

**STATEMENT OF ACTIVITIES**

For the year ended June 30, 2008  
(with comparative amounts for 2007)

	Unrestricted	Temporarily Restricted	Totals	
			2008	2007
<b>SUPPORT AND RECLASSIFICATIONS</b>				
Contributions and sponsorships	\$ 551,507	\$ -	\$ 551,507	\$ 647,457
Rental income	883,157	-	883,157	724,789
Special events and programs	46,564	-	46,564	16,619
Investment income and other	-	-	-	6,691
Net assets released from restrictions	<u>118,709</u>	<u>(118,709)</u>	<u>-</u>	<u>-</u>
Total support and reclassifications	<u>1,599,937</u>	<u>(118,709)</u>	<u>1,481,228</u>	<u>1,395,556</u>
<b>EXPENSES</b>				
Program:				
Depreciation	1,060,724	-	1,060,724	1,058,204
Occupancy	1,110,711	-	1,110,711	1,023,159
Other	-	-	-	-
Fundraising/ Special Events	106,029	-	106,029	49,462
General and administrative:				
Personnel	232,918	-	232,918	159,956
Professional	104,492	-	104,492	139,393
Insurance	28,749	-	28,749	30,879
Marketing	-	-	-	-
Supplies	11,886	-	11,886	9,645
Repair and maintenance	13,418	-	13,418	13,500
Other	<u>655</u>	<u>-</u>	<u>655</u>	<u>3,314</u>
Total expenses	<u>2,669,582</u>	<u>-</u>	<u>2,669,582</u>	<u>2,487,512</u>
Change in net assets	(1,069,645)	(118,709)	(1,188,354)	(1,091,956)
<b>NET ASSETS</b>				
Beginning of the year	<u>39,715,030</u>	<u>178,240</u>	<u>39,893,270</u>	<u>40,985,226</u>
End of the year	<u>\$ 38,645,385</u>	<u>\$ 59,531</u>	<u>\$ 38,704,916</u>	<u>\$ 39,893,270</u>

The accompanying notes to financial statements  
are an integral part of this statement.

**SHAW CENTER FOR THE ARTS, L.L.C.**

Baton Rouge, Louisiana

**STATEMENT OF CASH FLOWS**

For the year ended June 30, 2008  
(with comparative amounts for 2007)

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,188,354)	\$ (1,091,956)
Adjustments to change in net assets:		
Depreciation	1,060,724	1,058,204
Change in operating assets and liabilities:		
Pledges and accounts receivable and prepaid insurance	(21,012)	18,765
Contracts and accounts payable and deferred rent	11,913	25,678
Due to related party	<u>(23,052)</u>	<u>23,052</u>
Net cash provided (used) by operating activities	(159,781)	33,743
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Fixed asset acquisitions	<u>(13,854)</u>	<u>(202,436)</u>
Net decrease in cash	(173,635)	(168,693)
<b>CASH, including restricted cash</b>		
Beginning of year	<u>250,630</u>	<u>419,323</u>
End of year	<u>\$ 76,995</u>	<u>\$ 250,630</u>
<b>CASH</b>		
Cash and cash equivalents	\$ 17,464	\$ 72,390
Restricted cash	<u>59,531</u>	<u>178,240</u>
Total cash	<u>\$ 76,995</u>	<u>\$ 250,630</u>

The accompanying notes to financial statements  
are an integral part of this statement.

**SHAW CENTER FOR THE ARTS, L.L.C.**

Baton Rouge, Louisiana

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and operations**

The Shaw Center for the Arts, L.L.C. (Shaw Center), a Louisiana limited liability company, is a not-for-profit organization that was formed to serve as an integral component of a private and public effort to revitalize downtown Baton Rouge by constructing and renovating facilities for a performing arts theater, arts and cultural center, a museum of art, including classrooms and studios, and leasing space for residential and commercial purposes. The construction project has been made possible through a combination of public and private contributions.

The Shaw Center has two organizational members, which are the Douglas Manship Sr. Theater Complex, L.L.C. (f/k/a Arts Block Theater, L.L.C.) and LSU Museum, L.L.C., each owning a 50% member interest. The Douglas Manship Sr. Theater Complex, L.L.C. is owned by the Baton Rouge Area Foundation, a not-for-profit organization. Additionally, the LSU Museum, L.L.C. is owned by the LSU Property Foundation, L.L.C., a not-for-profit organization that is an affiliate of the LSU Foundation. These financial statements do not include any financial activity of the two members.

In addition to the legal members, the State of Louisiana, LSU Foundation, the Baton Rouge Area Foundation and the City of Baton Rouge/Parish of East Baton Rouge have provided significant funding to the construction of the Shaw Center facility.

**Basis of presentation**

The Shaw Center prepares its financial statements in accordance with generally accepted accounting principles. The significant accounting policies are described below to enhance the usefulness of the financial statements.

The Shaw Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Shaw Center does not have permanently restricted net assets. The statement of activities presents expenses of the Shaw Center's operations functionally as fundraising, and general and administrative.

The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Shaw Center's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for depreciation and deferred revenue.

**Cash and cash equivalents**

For purposes of the statement of cash flows, the Shaw Center considers cash in bank accounts as cash. Cash equivalents include investments with original maturities of three months or less. The Shaw Center has an agreement with its bank for automatic investment services whereby excess operating funds are invested daily at a competitive rate of return. The investment is a repurchase agreement with the bank and the investments are in certain securities issued by the United States Government or agencies thereof, which are considered cash equivalents.

**Receivables**

Accounts receivable are recorded at cost, net of an allowance for doubtful accounts. Management believes that all receivables are collectible at June 30, 2008; therefore, no allowance for doubtful accounts was recorded. The Shaw Center does not require collateral for its receivables.

**Temporarily restricted net assets**

The Shaw Center's primary source of funding consists of contributions dedicated to the construction of the Arts Block project. The Shaw Center initially recognized these contributions as temporarily restricted. As the amounts are expended for their intended purpose, such support is reclassified to unrestricted assets. Amounts that are not spent from these funding sources have been classified as temporarily restricted net assets.

**Fixed assets and depreciation.**

Purchased or constructed fixed assets are recorded at cost. Fixed assets are depreciated over their estimated useful lives at the time the asset is placed in service using the straight-line method.

**Income tax status**

The Shaw Center qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code; therefore, the financial statements have no provision for federal and state income tax.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**In-kind contributions**

The value of in-kind contributions to the Shaw Center are recognized at the fair market value of the benefit received, unless immaterial. In-kind contributions during 2008 consisted of utility services provided to the Shaw Center facility and paid by the State of Louisiana. For 2008, the Shaw Center recognized \$541,591 from donated utilities.

Contribution of services are recognized in the financial statements if the service enhances or creates non-financial assets or requires specialized skills, are provided by individuals possessing these skills and would typically be purchased if not provided by donation. A substantial number of unpaid volunteers have made a significant contribution of their time to develop the Shaw Center's programs, principally in fund raising activities, operations, and board participation. The value of this donated time is not reflected in these statements since no objective basis for measurement or valuation is available.

**Advertising**

The Shaw Center incurred advertising expense of \$47,304 for the year ended June 30, 2008. The Shaw Center expenses advertising costs as incurred.

**Reclassifications**

Certain reclassifications have been made to the 2007 financial statements to conform with classifications made in 2008. These reclassifications had no effect on the change in net assets.

**NOTE 2 - FIXED ASSETS**

Property and equipment, related service lives, and accumulated depreciation at June 30, 2008, are as follows:

<u>Description</u>	<u>Estimated Service Lives</u>	<u>Amount</u>
Land	-	\$ -
Buildings	40 years	42,133,600
Equipment and software	3-5 years	26,350
Construction in progress	-	40,122
		<u>42,200,072</u>
Accumulated depreciation		<u>(3,525,136)</u>
Fixed assets, net		<u>\$ 38,674,936</u>

The State of Louisiana owns the land on which the facility is located. See Note 7. Depreciation expense was \$1,060,724 for the year ended June 30, 2008.

**NOTE 3 - SIGNIFICANT SOURCES OF REVENUE**

The Shaw Center has received significant funding from four major sources to construct facilities for the Shaw Center and provide funding for its initial operations. The commitments to fund this project were as follows:

	Commitment Funded
Manship Theater/B. R. Area Foundation	\$ 9,473,339
LSU Museum/LSU Property Foundation	11,553,585
State of Louisiana	20,506,941
City of Baton Rouge/Parish of East B. R.	<u>2,200,000</u>
Total	<u>\$ 43,733,865</u>

Through June 30, 2008, the Shaw Center received cash of approximately \$40,622,000 from these commitments. The remaining funding was contributed prior to the formation of the Shaw Center for the Arts, L.L.C. and represents attorney and architectural fees of approximately \$3,112,000.

The State of Louisiana, through the cooperative endeavor agreement, has agreed to provide repair and maintenance and utility services for the Shaw Center, as well as the related chilled water system. However, any property leased to commercial tenants is excluded from the State's commitment. Finally, this commitment is subject to annual appropriation by the Legislature of the State of Louisiana. In the event that funds are not authorized, the Shaw Center will be responsible for such expenses. The Shaw Center recognized \$541,591 for these services for 2008.

**NOTE 4 - RETIREMENT PLAN**

The Shaw Center offers retirement benefits to eligible employees electing to establish a 401(k) retirement account, and includes a matching contribution of 5% of eligible compensation. Participants are fully vested in contributions made to their retirement account. During the year ended June 30, 2008, the Shaw Center contributed \$2,758 for participants.

**NOTE 5 - CONCENTRATIONS OF CREDIT RISK**

Financial instruments which subject the Shaw Center to concentrations of credit risk consist primarily of investments in repurchase agreements. The Shaw Center typically maintains cash and temporary investments in local banks that may, at times, exceed the FDIC limits of \$100,000. Management believes the risk is limited. The carrying value of cash, receivables and accounts payable approximate fair value due to the short-term maturity of these instruments.

**NOTE 6 - COMMITMENTS**

**Leases**

The land on which the facilities are located is owned by the State of Louisiana and is leased to the Shaw Center through Louisiana State University (LSU) for a ninety-nine year term ending November 15, 2101. There are no scheduled payments associated with this lease as the financial contributions made to build the Shaw Center project have been accepted as the consideration.

The Shaw Center has entered into leasing arrangements with its members, Douglas Manship Sr. Theater Complex, L.L.C. and LSU Museum, L.L.C., for occupying certain areas of the arts building. The leases have a ninety-nine year term. The two members are obligated to pay a pro-rata share of the operating expenses of the Shaw Center.

The Shaw Center has also entered into a leasing arrangement with the Downtown Redevelopment, L.L.C. to occupy space for sub-leasing to retail and commercial establishments, including residential use. The Downtown Redevelopment, L.L.C., an affiliate of the Baton Rouge Area Foundation, is required to build facilities to meet the needs of sub-leased tenants. See Note 3.

During 2008, the Shaw Center received rent of approximately \$770,000 from these leases.

**Special Independent Auditors' Report**  
**SHAW CENTER FOR THE ARTS, L.L.C.**  
Baton Rouge, Louisiana

June 30, 2008



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

Board of Directors  
Shaw Center for the Arts, L.L.C.  
Baton Rouge, Louisiana

We have audited the financial statements of **SHAW CENTER FOR THE ARTS, L.L.C.** (Shaw Center) (a non-profit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Shaw Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Shaw Center's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purposed described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We identified a deficiency in internal control that we consider to be a material weakness as defined above. This matter and our recommendation is attached as item 2008-1.

## Compliance

As part of obtaining reasonable assurance about whether the Shaw Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Shaw Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Shaw Center's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Directors, management, state and federal granting agencies, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

*Faulk & Winkler, LLC*

Certified Public Accountants

Baton Rouge, Louisiana  
October 20, 2008

# **SHAW CENTER FOR THE ARTS, L.L.C.**

Baton Rouge, Louisiana

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2008

### **A) SUMMARY OF AUDIT RESULTS**

1. The type of report issued on the financial statements: **Unqualified opinion.**
2. Significant deficiencies in internal control were disclosed by the audit of financial statements: **2008-1**  
Material weaknesses: **2008-1**
3. Noncompliance material to the financial statements: **None**

### **B) FINDINGS – FINANCIAL STATEMENT AUDIT**

#### **2008-1 Segregation of Duties/Financial Oversight**

**Observation:** We have the following observations concerning financial oversight of the Shaw Center:

- Segregation of duties is not sufficient to have effective internal control over financial reporting. The finding results from the small size of the organization. These limitations allow no opportunity for meaningful segregation of duties.

On the other hand, disbursements are approved by individuals not associated with the financial reporting process. Additionally, the Shaw Center's operating activity is reported to the Finance Committee on a regular basis. During 2007, members of the Finance Committee of the Shaw Center initiated a requirement that all checks in excess of \$1,000 require two signatures.

- Finally, the Shaw Center relies on its auditors' to assist in adjusting the books and the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, we cannot be considered part of the Shaw Center's internal control structure, and because of limitations of the Shaw Center's accounting staff, the design of the internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

**Recommendation:** We recommend that management develop an independent reconciliation process for cash received compared to booked events at the Shaw Center. Currently, one individual is performing all such functions.

Procedures should be developed to provide for independent review of the monthly general ledger and any journal entries recorded.

**Management's corrective action plan:** We concur with the finding and intend to pursue implementing the recommendations.

However, we understand that the "deficiency" relating to the preparation of our external financial statements results from new professional standards that have been adopted by the accounting profession. Significant factors are as follows:

- The Shaw Center generates the appropriate financial information to effectively manage its operations in a timely manner.
- The resources necessary to prepare financial statements in accordance with generally accepted accounting principles would not represent responsible stewardship by our management at this time.

Accordingly, while this finding maybe necessary for the professional reasons cited above, we do not consider our current situation to be deficient, and, therefore, conclude that the remedying of the deficiency does not represent an approach that the Shaw Center should adopt at this time.



**SHAW CENTER FOR THE ARTS, L.L.C.**  
Baton Rouge, Louisiana

**SCHEDULE OF PRIOR YEAR FINDINGS**

June 30, 2008

**2007-1 Segregation of Duties/Financial Oversight**

This matter has been reclassified as Item 2008-1.